A Business Plan:
The Key to Success for Raising Private Equity Capital

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What is a Business Plan?

- Formal written statement of a set of business goals and the plan for reaching those goals over a certain time period: a Road Map

- A Business Plan includes:
  - Background information on the team
  - Operational objectives & strategy
  - Financial objectives & projections
  - Marketing strategy
  - Human resources strategy
  - Other information

- Essential to complete Business Plan <u>before</u> raising Private Equity capital

- Useful to complete Business Plan even if not raising Private Equity capital

Business Plan Formats

- "Elevator Pitch"
  - 3 minute summary of the Business Plan's Executive Summary
  - Used as teaser to generate interest from potential investors
  - Often oral; sometimes written
- Oral Presentation
  - Power point presentation and oral narrative
  - Initiates discussion and gets potential investors to read the Written Presentation
  - Typically 10 to 20 pages; and 30 to 60 minutes long
- Written Presentation
  - Detailed, well written and well formatted Word document
  - Comprehensive
  - Typically 20 to 50 pages
- Operational Plan
  - Detailed execution plan describing operational planning information
  - Extremely important for start-ups and earlier stage companies
  - Also required for companies undergoing transition to new market segments, new geographies, new products, etc.
  - Typically 20 to 50 pages

What is in a Business Plan?

Business Plan's composition will vary depending on stage of company & other factors. Generally includes:

- Executive Summary
  - Problem or Need in the market
  - Solution
  - Summary Financials
  - Executive Summary should "close the deal"

- Business Description
  - History
  - Employees
  - Products or Services
  - Operations

- Market & Customers
  - Market Size
  - Market Growth
  - Go-to-market Strategy
  - Existing & Prospective Customers
  - Geographical Focus
  - Industry Focus

What is in a Business Plan?

- Competitive Landscape
  - Existing and Potential Customers
  - Market Share of Competitors
  - Strengths and Weaknesses of Competitors
  - Competitive Advantages
  - Barriers to Entry

- Business & Revenue Model
  - How will company make money?
  - How does company generate revenue?

- Management Team
  - Most important factor to PE funds, especially for start-ups and early stage companies

- Financial Projections & Funding
  - 5 Year Projections (Income Statement, Cash flow Statement, Balance Sheet)
  - How much capital does company require over next 5 years?

PE Fund Manager's Perspective: Why a Business Plan is Important

- PE Fund Manager may have little knowledge about your industry

- PE Fund Manager has no knowledge about your business, whereas:
  - Management team works at the business day-in, day-out
  - Management team has as many as 30 years experience with the business

- PE Fund Managers are approached by thousands of companies seeking capital

- PE Fund Managers have to quickly screen investment opportunities. Screens may be based on:
  - Size of Investment
  - Stage of company (start-up, growth, mature, etc)
  - Industry
  - Technology Risk
  - Listed company (vs. private company)
  - Return-on-capital characteristics
  - Other

PE Fund Manager's Perspective – Why a Business Plan is Important

- PE Fund Managers have 30 to 45 days to understand a business well enough to make an investment decision --- which has a 5 year investment horizon.

- Management team's responsibility to help the PE Fund Manager understand their business very quickly
  - Business Plan ensures that a Management Team can effectively and efficiently accomplish this goal

- The Key Diligence item for PE Funds is the quality of Management Team. Writing a Business Plan ensures that the Management Team:
  - has clear long term strategy (as opposed to only short term operational plans)
  - is in agreement on strategy
  - understands their industry and business
  - has a clear execution plan

- Writing a Business Plan before meeting with a PE Fund will ensure that the Management Team looks smart

Case Study: IT Services Company

- IT Services company focused on SAP implementation. Sub-contractor to Prime Contractors
- Founded by an entrepreneur 10 years ago, who owned 100% of equity
- $50 million revenue; 40% historical sales growth rate
- Focused on large size customer segment
- Go-to-market strategy primarily through 1 Prime Contractor; 70% customer concentration with this Prime Contractor
- Business run very “efficiently”; lacked historical investment to reach larger scale

Case Study: IT Services Company

- Entrepreneur wanted to sell portion of his equity stake
  - To diversify his personal net worth
  - To pursue a higher growth strategy, which was also a higher risk strategy
- Entrepreneur wanted to pursue different market: middle market customers
  - Requires different go-to-market strategy
    - Directly to mid-market customers instead of through Prime Contractors
  - Requires different organizational requirements for
    - Sales & Marketing
    - Operations
    - Management

Case Study: IT Services Company

- Entrepreneur, with assistance of investment bankers, had already completed 2 types of Business Plans (Oral Presentation and Written Presentation).

- Requested entrepreneur to also complete an Operational Business Plan that answered questions such as:

  Operationally, how will you get from “Point A” to “Point B”

  Human Resources:
  - Who do you need to hire to pursue this new growth strategy?
  - Have you identified the new hires?
  - When will you hire them?
  - How much will they cost?
  - How will responsibilities of existing management team be re-aligned?

  Customers:
  - What is size of new customer orders?
  - Who are potential customers?
  - Who is servicing their existing requirements?

Case Study: IT Services Company

Sales & Marketing:
- How will you market your company to mid market companies?
- How will you get business in the mid market?

Technology:
- Do you have the appropriate technology templates for the mid market?
- Where will you get them?
- How much will they cost?

Acquisitions:
- Will you make acquisitions to pursue the mid market?
- Who are the potential acquisition candidates?
- How much would they cost?
- Benefit of acquiring these companies?

Summary

- A Business Plan is essential to raise private equity capital
- Must be completed <u>before</u> a company begins fund raising process
- Investing time to develop a clear, articulate, thorough Business Plan is a very high return-on-time investment
- A good Business Plan will:
  - Increase the probability of success of raising PE capital
  - Increase the pre-money valuation of your company
  - Improve the terms on which PE capital is raised